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European Union

Agricultural Situation

EU Commission proposes reforms for Sugar, Cotton, Olive Oil and Tobacco

2003

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Report Highlights:
For sugar, the proposals are in the form of a discussion document presenting several reform options. Papers presented suggest that the Commission favours price cuts, with income compensation and scrapping the current sugar quota system. Any eventual reform is unlikely to start before 2006.
Proposed reforms for olive oil, tobacco and cotton involve converting part of current payments into the decoupled Single Farm Payment and maintaining the remainder as a production linked area payment.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E2]

Sugar

The current EU sugar regime runs from 2001/02 through to 2005/06. As part of the 2001 Sugar regime legislation, the Commission was mandated to publish a report on the functioning of the regime and set out future proposals[1].

The Commission's proposals and ancillary Impact Assessment are very much intended as a discussion documents to test reaction to reforming the EU Sugar regime, without yet specifying concrete proposals.

As reasons for reforming the Sugar regime, the Commission paper cites the increasing market orientation of the CAP following June's CAP Reform Agreement, the potential market imbalances created by the Least Developed Countries tariff free access for sugar from 2009, as well as the potential outcome of WTO challenges to the EU Sugar regime and the eventual outcome of any WTO Agreement.

Three scenarios were investigated by the Commission:

- Status Quo – extending the present regime beyond 2006
- Reduced EU internal price. The EU Sugar price was reduced to €450 with an eventual phase out of production quotas. Additional options within this scenario included adding sugar to the Single Farm Payment programme.
- Complete liberalization. Scrapping the price support system for sugar, as well as production quotas. Within this scenario, options to remove import tariffs and introduce income support were also investigated.

The paper lists the advantages and disadvantages of each scenario without being prescriptive in its choices. However, both the status quo and full liberalization options are described as being either politically or economically unsuitable, suggesting that the Commission is clearly thinking along the lines of price cuts, income compensation and removing the quota system.

Timetabling

The timeframe for formal proposals and their eventual adoption and entry into force is still unclear. Member States will have the first opportunity to comment on the Commission's proposals at the September 29-30th Agriculture Council. This should help to gauge reaction and indicate the pace of future discussions. It is felt unlikely that any formal proposals will be made during the remainder of 2003. Fischler has committed to publishing these before the end of the current Commission (November 2004), although this is more likely to mean May 2004 when Commissioners from the 10 New Member States join the current Commission College.

However, due to the need to have an Opinion on the proposals from the European Parliament, where there are elections in Summer 2004, it is unlikely that any reform package can be finalized and approved before the end of 2004. French Agriculture Minister, Herve

[1] Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector, Article 50 (2):
"On the basis of Commission studies on the market situation, all aspects of the quota system, prices, relations within the trade and an analysis of the increase in competition resulting from the European Union's international commitments, the Commission shall submit a report at the beginning of 2003, together with any appropriate proposals."

Gaymard, is reported to have said at the informal Agricultural Council in Italy earlier this week that no decision on sugar should be taken during 2003 or 2004.

This would suggest that the new Sugar regime, should agreement be reached, is likely to enter into force in 2006, assuming that the new European Parliament, the new Agriculture Commissioner who will replace Fischler in 2005 as well as the ten new Member State governments, are all amenable. The current regime is due to run out midway through 2006.

The Commission's reform proposals:
"Accomplishing a sustainable agricultural model for Europe through the reformed CAP - the tobacco, olive oil, cotton and sugar sectors", COM(2003) 554 final

http://europa.eu.int/comm/agriculture/capreform/com554/554_en.pdf

European Commission Press Release
"Commission opens discussion to reform the EU sugar regime"

http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1286|0|RAPID&lg=EN&display=

Commission staff working document
"Reforming the European Union's sugar policy - summary of impact assessment"

http://europa.eu.int/comm/agriculture/publi/reports/sugar/index_en.htm

'Mediterranean' Products

The Commission has published proposals to reform the so called Mediterranean products – Olive Oil, Cotton and Tobacco. The June 2003 CAP Reform Agreement called for the Commission to publish reform proposals for these products this Fall. For more information on the June CAP Reform and the Single Farm Payment, see GAIN Report E23121.

The approach taken is of decoupling aid payments into the Single Farm Payment. These reforms are aimed at being budget neutral. It should be emphasized that these three products are particularly sensitive in the EU due to the areas where they are cultivated being highly dependant on the revenue (and subsidies) granted for these products.

Formal legal texts are expected in November, with the Commission aiming to get these adopted into EU law in early in 2004, with reforms starting in late 2004 or 2005.

Tobacco

The current regime is proposed to be replaced over a period of three years with current payments converted into the SFP and a restructuring envelope.

Olive Oil

60% of producer support expenditure, on holdings greater than 0.3 hectares, would go into SFP, with the remaining 40% to remain in national envelopes to be used as a an area or per tree payment. Small holdings (under 0.3 ha.) would see their entire production aid converted into the SFP. The new regime would come into operation in November 2004. The private storage system would be maintained to act as a safety net. Export subsidies for olive oil containing products would be restricted.

Cotton

60% of producer support expenditure would go into SFP, with the remaining 40% to remain in national envelopes to be used for a new area payment. Maximum eligible areas for the new area payments would be 340,000 hectares in Greece and 85,000 hectares in Spain (currently, the maximum areas are roughly 360,000 hectares and 100,000 respectively).

European Commission Press Release
"Agricultural reform continued: Commission proposes sustainable agricultural model for Europe's tobacco, olive oil and cotton sectors"

http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1285|0|RAPID&lg=EN&display=

The Commission's reform proposals:
"Accomplishing a sustainable agricultural model for Europe through the reformed CAP - the tobacco, olive oil, cotton and sugar sectors", COM(2003) 554 final

http://europa.eu.int/comm/agriculture/capreform/com554/554_en.pdf

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E23121	CAP Reform deal approved	6/26/03
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E23056	EU Sugar Annual	04/10/2003